‘Coronavirus loan scheme will fail small businesses’

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Christoph Rieche said more could be done to take advantage of fintech

Like many small business owners, Clive May, who runs a bricklaying company in North Wales, fears he will need more money to see him through the next few months.

The coronavirus pandemic means that he is facing a hiatus in tendering opportunities and a long wait for payment from contractors that he has done jobs for. “Housing firms are cancelling orders because of the fear potential buyers don’t know if their jobs are safe. It’s very worrying.”

Mr May, 56, is a prime candidate for the coronavirus business interruption loan scheme, the government’s emergency credit initiative for small companies fearing for their survival.

Clive May has concerns about how the loan scheme will work

However, he says he “wouldn’t touch it with a bargepole” if it proves too similar to the Enterprise Finance Guarantee (EFG), the loan scheme set up in the wake of the 2008 financial crisis that the new initiative is based on.

As with the EFG, the state will act as guarantor on a proportion of bank debts written to small companies. The guarantee is designed to give a bank the confidence to lend — the borrower remains liable for the full loan.

Mr May was among thousands who were mis-sold the EFG on the erroneous basis that it meant borrowers were liable for only a quarter of the debt.

His concerns about the new scheme include how it will be explained by banks, whether business owners will be expected to put personal assets on the line, and how it will impact credit ratings. After his EFG experience, which he blames for the demise of his previous company, he found difficulty re-banking. “To me this looks like a rebranded EFG scheme,” he said.

It will be launched early next week and will provide companies with credit of up to £5 million each. The exact terms are still being discussed. Only high street banks that lend via the EFG will be eligible to use the scheme at its launch, raising questions over whether it can be distributed quickly enough.

Mark Stephens, the chief executive of Allica Bank, a new bank for small and medium-sized companies, said the EFG was cumbersome and may prove too unwieldy a model.

With companies facing immediate decisions over whether to lay off staff, a traditional loan application process that takes days or even weeks to clear may not cut it. The EFG was “horrendous” for applicants and lenders in terms of its bureaucracy, he said. “It took a long time to process.”

One digital lender has expressed concerns that a third, or almost two million, small businesses will not be able to access the emergency coronavirus loans unless the terms are altered.

Tide, a digital bank for small businesses, has written to John Glen, economic secretary to the Treasury, calling for the loan scheme to be made simpler and widened to include more lenders.

Oliver Prill, chief executive of Tide, said: “The prime minister and the chancellor think they have announced a huge programme, but it is a *Yes Minister* situation. The scheme will fail a significant proportion of small businesses.”

Christoph Rieche, chief executive of Iwoca, which has provided more than £1 billion of credit to small companies, said: “The fintech community has not been taken advantage of yet. Hundreds of thousands of businesses need cash, and delivering that is not a trivial exercise.”

Bankers said the government may need to guarantee more than the 80 per cent agreed for individual loans because banks will not be able to justify the risk of lending to businesses that are in danger of seeing all of their cashflows disappear within weeks.

Oaknorth Bank, another specialist lender, wants to be accredited for the new scheme. Nick Lee, its head of regulatory affairs, said: “We need to rip up the rule book created after the financial crisis because we need successful businesses to come out of this.”

One option could be “helicopter money” delivered through the banking system, he said. “This could be done via existing central bank facilities, for example into their reserve accounts, so those commercial banks can pass these on to otherwise successful businesses that need the funding now.”

Bobby Lane, an accountant, noted that the loans have to be based on a “sound borrowing proposal”. “It is almost impossible to imagine a situation where a business can forecast revenue with any certainty at the moment. How are lenders going to satisfy themselves that a business is sustainable?”

Caroline Plumb, founder of Fluidly, a cashflow software provider, queried the extent to which the scheme will increase lending to those most in need: “The [EFG] saw lenders making the most of the [state] guarantees, without increasing their appetite for risk.”

Frances Coulson, former president of R3, the insolvency trade body, said: “It remains to be seen whether real access is given to all businesses efficiently and without lenders imposing or changing terms of existing banking.”

However, Mark Phillips, QC, an insolvency lawyer with experience of working on the collapses of Lehman Brothers, Barings Bank and BCCI, argued the loan scheme was valuable and companies should focus on staying in business rather than worrying about taking on debt. He said the terms are favourable, with no interest due for six months. “My advice to small businesses is, take the loans, we can sort out the consequences in due course.”